

J00A04 – MDOT Debt Service Requirements

MDOT RESPONSE TO DLS ANALYSIS

DLS Budget Analysis

1. MDOT's Total Debt Outstanding (Page 10)

In keeping with the recommendation set forth by the Spending Affordability Committee, DLS recommends that the General Assembly adopt a provision in the Budget Reconciliation and Financing legislation that imposes a new debt ceiling that caps the maximum amount of debt from all currently used debt sources – including consolidated transportation bonds and all types of nontraditional debt – that may be outstanding at any one time at \$2.3 billion.

In the event that the General Assembly does not support the recommendation regarding the introduction of a new debt limit, DLS recommends that the General Assembly adopt budget bill language limiting the outstanding and unpaid principal balance of all nontraditional debt (which is defined for the purpose of this limit as all types of debt vehicles utilized by MDOT except consolidated transportation bonds and GARVEE bonds).

MDOT Response: The Department respectfully does not concur with the recommendation.

To enact legislation to limit the amount of debt outstanding at \$2.3 billion would virtually close the door on the Department's ability to move forward with projects that would generate revenues from which debt service would be paid. Projects (see Exhibit 2) similar to those that have been financed with debt repayment from sources such as airport passenger facility charges, rental car customer facility charges, and parking revenues would be deferred pending legislation. Economic development opportunities could be lost to the State if projects supported by direct lease revenues cannot proceed in a timely fashion. A vast majority of improvements at BWI Airport would have fallen in this category. Other projects might fall into this category such as the Annapolis parking garage or a new bay crossing.

The Department also respectfully does not concur with the recommendation for budget bill language limiting the outstanding and unpaid principal balance of all nontraditional debt.

Each September and January, the Department provides the legislature information for the issuance of anticipated debt. In addition, the Department advises the Legislature of new projects in the capital program along with the source of funds to implement the project. This process has served well. We do not believe that it is broken. For the most part, the issuance of nontraditional debt is a proven method of financing for which debt service is paid from the project that is being financed and not from funds that could support other transportation projects.

MDOT RESPONSE TO DLS ANALYSIS

DLS Budget Analysis, cont.

2. GARVEEs and State Debt Capacity (Page 16)

In recommending that the budget committees give serious consideration to imposing limits on the issuance of nontraditional debt, the Spending Affordability Committee singled out GARVEEs as a debt instrument that the budget committees should consider limiting. In keeping with the recommendation of the Spending Affordability Committee, DLS recommends that the General Assembly should pass legislation or adopt provisions in the Budget Reconciliation and Financing Act that would amend the Transportation

Article to impose debt ceiling limits and a coverage test on GARVEE bond issuances made by either MDOT or MdTA. Specifically, GARVEE issuances should be constrained in the following manner:

- *the total amount of GARVEE debt outstanding should not exceed \$500 million;*
- *anticipated debt service payments on GARVEE bonds should not exceed 10% of the State's total annual federal highway aid; and*
- *GARVEE issuances should not exceed 15 years' maturity.*

MDOT Response: MDOT respectfully does not concur with the recommendation.

The Department has always been a firm believer in prudent debt management as evidenced by its net revenue coverage policy that is more restrictive than what is pledged to its bond holders. This policy and other management parameters have allowed MDOT to maintain its prestigious "AA" bond rating. The Department is committed to manage future GARVEE debt in the same manner as it has managed consolidated transportation bonds and other nontraditional debt.

The genesis for the issuance of GARVEE bonds for funding the ICC arose during the course of the Hellmann Commission's work. Governor Ehrlich supports the Hellmann Commission's \$4.7 billion increase in transportation projects expenditures which will fund projects in every corner of the State. During the 2003 Session, GARVEE legislation was adopted unanimously by the General Assembly. There does not seem to be a reason to reverse this position by adopting the recommended restrictions. These restrictions would undercut the Governor's vision for transportation projects in every corner of the State. The Department believes that the Legislature would not want to sabotage the Governor's vision.

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DLS Budget Analysis, cont.

The limits as recommended by DLS are arbitrary and have little to do with any standards that should govern the amount of debt that can be issued. Why was \$500 million selected as the maximum amount outstanding? Why was 10% of total annual federal aid selected? If the General Assembly agrees with the Spending Affordability Committee to establish limits on GARVEE bonds, then the Department suggests that those limits be established based on sound professional advice. The Department, with the cooperation of the Maryland Transportation Authority, is agreeable to have our financial advisors conduct an analysis of potential guidelines for GARVEE bonds for Maryland and report back to the budget committees by a mutually agreeable date.

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Operating Budget Recommended Actions

1. Add annual language limiting debt outstanding. (Page 18)

Consolidated Transportation Bonds may be issued in any amount provided that the aggregate outstanding and unpaid balance of these bonds and bonds of prior issues shall not exceed \$ _____ as of June 30, 2005. Provided, however, that in addition to the limits established under this provision, the department may increase its debt outstanding by not more than \$15,000,000, so long as (1) notice stating the specific reason for the additional debt requirement is provided to the budget committees; and (2) the budget committees shall have 45 days to review and comment on the proposal before publication of a preliminary official statement that includes the debt.

MDOT Response: The Department concurs to the recommended language.

2. Add language limiting nontraditional debt. (Page 18)

The total amount of nontraditional debt outstanding at the end of fiscal 2005 shall not exceed \$771,160,000. Nontraditional debt is defined as any debt instrument that is not a consolidated transportation bond or a GARVEE bond.

MDOT Response: The Department respectfully does not concur with the recommendation.

Each September and January, the Department provides the legislature information for the issuance of anticipated debt. In addition, the Department advises the Legislature of new projects in the capital program along with the source of funds to implement the project. This process has served well. We do not believe that it is broken. For the most part, the issuance of nontraditional debt is a proven method of financing for which debt service is paid from the project that is being financed and not from funds that could support other transportation projects.

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Operating Budget Recommended Actions, cont.

3. Add language requiring nontraditional debt outstanding information. (Page 19)

The Maryland Department of Transportation (MDOT) shall submit with its annual September and January financial forecasts information on (1) anticipated nontraditional debt outstanding as of June 30 of each year and (2) anticipated debt service payments for each outstanding nontraditional debt issuance from fiscal 2004 through fiscal 2015. Nontraditional debt outstanding is defined as any debt instrument that is not a consolidated transportation bond or a GARVEE bond; such debt includes, but is not limited to, certificates of participation, debt backed by customer facility charges, passenger facility charges, or other revenues, and debt issued by the Maryland Economic Development Corporation or any other third party on behalf of MDOT.

MDOT Response: The Department concurs to the recommended language.